



1315 K STREET
MODESTO, CALIFORNIA 95354-0917
TELEPHONE (209) 527-6453
FAX (209) 527-0630

April 21, 2006

The Honorable A.G. Kawamura, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Re: Alternative Proposal for the June 1, 2006 Class 2, 3, 4a and 4b Hearing

Dear Mr. Secretary:

Western United Dairymen would like to submit the following alternative proposal for the upcoming June 1, 2006 Class 2, 3, 4a and 4b hearing. We respectfully request that prices for butter, nonfat dry milk and cheese used in the Class 4a and 4b pricing formulas be floored at their respective Support Purchase Prices (SPP) as announced by the United States Department of Agriculture. This proposal would reinstate the floors that were eliminated as a result of the February 2005 hearing. The proposal also follows Western United Dairymen's historical policy on the matter. We also seek adjustments to the butter and cheese f.o.b. adjusters based on data released by CDFA. Our proposed changes to the Northern and Southern California Stabilization and Marketing Plans are attached.

We would like to take this opportunity to remind you that the timing could not be worse for the call of a hearing that seeks to lower producer prices. Producer prices have declined rapidly in the last several months, reaching levels below the cost of production. There are no indications that the downward trend will end anytime soon. The already declining producer prices, coupled with the reductions sought by the Dairy Institute are an untenable economic hit for many dairy families. Many will go out of business or acquire additional debt. Neither outcome would be positive for the industry as a whole.

We thank you for consideration of this alternative proposal and look forward to providing testimony to support our proposal and refute those changes sought by the Dairy Institute.

Very truly yours,

Michael L. H. Marsh, CPA
Chief Executive Officer

cc: A.J. Yates, Undersecretary
Kelly Krug, Director, Marketing Services
David Ikari, Dairy Marketing Branch Chief
Board of Directors, Western United Dairymen

Proposed Language Changes to the Northern and Southern California Stabilization and Marketing Plans

Section 300.0

(D) The minimum prices to be paid for components used for Class 4a shall be computed as follows:

- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price, less an f.o.b. California price adjuster of ~~two and eighty five hundredths cents (\$0.0285)~~ **one and thirty five hundredths cents (\$0.0135)**, less a manufacturing cost allowance of fifteen and six tenths (\$0.156), and the result multiplied by a yield factor of one and two-tenths (1.2).
- (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the nonfat dry milk price, less a manufacturing cost allowance of fifteen and two tenths cents (\$0.152), multiplied by a yield factor of one (1.0).
- (3) The butter prices used in calculations pursuant to this Paragraph shall be **the higher of** the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month, **or the federal support purchase price for butter in effect for the 26th of the previous month and concluding the 25th day of the current month as announced by the United States Department of Agriculture.**
- (4) The nonfat dry milk prices used in calculations pursuant to this Paragraph shall be **the higher of** the weighted average price per pound for all Grade A and extra grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants for the period beginning the 26th day of the previous month and concluding the 25th day of the current month, as reported by the California Department of Food and Agriculture for the month, **or the federal support purchase price for nonfat dry milk in effect for the 26th of the previous month and concluding the 25th day of the current month as announced by the United States Department of Agriculture.**

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

- (1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:
 - a) The price per hundredweight computed by the formula using the Cheddar cheese price, less an f.o.b. price adjuster of ~~two and ninety hundredths cents (\$0.0290)~~ **two and twenty nine hundredths cents (\$0.0229)**, less a Cheddar cheese manufacturing cost allowance of seventeen and one tenths cents (\$0.171), all multiplied by a yield factor of ten and two-tenths (10.2).
 - b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of fifteen and six tenths cents

(\$0.156), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).

- c) The price per hundredweight computed by the formula using the dry whey price, less a manufacturing cost allowance of twenty cents (\$0.20), all multiplied by a yield factor of 5.8.
- (2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.
 - (3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).
 - (4) The Cheddar cheese price used in calculations pursuant to this Paragraph shall be the **higher of the** simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month, **or the federal support purchase price for block Cheddar cheese in effect for the 26th of the previous month and concluding the 25th day of the current month as announced by the United States Department of Agriculture.**
 - (5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
 - (6) The dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey-West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.